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PATENT & TRADEMARK OFFICE

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

In re Patent Application of:
Bart Kavanaugh

Group Art Unit: not yet known

Application Nos.: 09/986,670

Examiner: not yet known

Filed: November 9, 2000

For: SYSTEM FOR FUNDING, ANALYZING AND MANAGING LIFE INSURANCE POLICIES

STATEMENT OF PRE-EXAMINATION SEARCH UNDER MPEP 708.02

Commissioner for Patents
Washington, DC 20231

Dear Sir:

This statement is to attest that Applicant had a pre-examination search performed. As required by M.P.E.P. §708.02VIII(C), the search will now be described. The search was conducted in the records of the US Patent and Trademark Office (US PTO) as well as other non-patent databases by John Welsh, a professional patent searcher, and was completed on August 29, 2001. Using the manual search facilities of the US PTO, Mr. Welsh manually searched class 705 and subclasses 6, 26, 37, and 400. Additional electronic searching using various combinations of keywords "annuit*", "life insurance", "trust" and "tax*" was done by patent attorney Chris Tanner on October 11, 12, and 15, 2001.

In accordance with M.P.E.P. §708.02VIII(E), a detailed discussion of each reference follows.

U.S. Patent No. 6,085,174 to Edelman ('174) discloses a computer system for administering an investment and/or retirement program. The system combines annuities with trusts (col. 13, lines 22-25) to accumulate financial growth inside of a life-insurance

contract (col. 13, lines 39-47). The system discloses using a computer system for helping to administrate the trust, annuity, and life insurance combination (col. 17, lines 2-6).

The '174 patent does not disclose or suggest several important features of the present invention. The '174 system does not disclose financial growth being internal to a life insurance policy, and does not disclose using borrowed money to purchase the annuity. In fact, the '174 system specifically discloses that the user's own assets should be redirected from existing fixed-rate CDs to purchase the annuities (col. 14, last three paragraphs). Furthermore, the '174 system does not disclose using a partnership, sub-business, or other tax-advantaged entity for sheltering income from taxes, although it does state two tax disadvantages commonly associated with annuities, which are 1) taxed at ordinary rates, and 2) no "stepped-up basis" at death (col. 15, lines 48-57). However, no further information is available as to how the '174 system solves these problems. Finally, the '174 system does not disclose or contemplate any implementation which is advantageous for charities.

U.S. Patent No. 5,819,230 to Christie et al. ('230) discloses a system for tracking asset purchases such as home mortgages, and insurance policies. One embodiment of the '230 patent allows for the use of a down payment intended to be used in a home purchase to be used to purchase an annuity instead, thereby reducing the LTV (loan to value) ratio (col. 6, lines 56-60). In the '230 patent's combined mortgage and life insurance program, cash flows are managed by custodial accounts and the mortgage is secured by non-traditional collateral associated with the combined mortgage and life insurance (col. 5, lines 7-16).

The '230 patent does not disclose or suggest several important features of the present invention. Although the '230 system discloses using borrowed money to purchase annuities and life insurance, it does not disclose or suggest paying the life insurance premiums using the income stream emanating from the annuity. Furthermore, the '174 system does not disclose using a partnership, sub-business, or other tax-advantaged entity for sheltering income from taxes. It also does not suggest an investment increasing value

tax-free inside a life insurance policy, nor does it suggest any tax advantages of combining annuities and life insurance. Also, it was unclear as to whether the custodial accounts of the '230 system could correspond to the trusts of the present invention.

U.S. Patent No. 5,893,071 to Cooperstein ('071) discloses a computer system for evaluating annuities. Life annuities, set up through insurance companies, pay out income as well as investment earnings calibrated over the statistically expected lifetimes of annuitants (col. 2, lines 1-3). Death benefits can be set to either zero or to the return of all principal (col. 8, lines 2-15).

The '071 patent does not disclose or suggest several important features of the present invention. The '071 system does not suggest using borrowed money to purchase annuities and life insurance, and also does not suggest paying the life insurance premiums using the income stream emanating from the annuity. Furthermore, the '174 system does not disclose using a partnership, sub-business, or other tax-advantaged entity for sheltering income from taxes. It also does not suggest an investment increasing value tax-free inside a life insurance policy, nor does it suggest any tax advantages of combining annuities and life insurance. Finally, it mentions neither trusts nor charities in any context.

The "Pay Life Insurance or Long Term Care Premiums with an Immediate Annuity" (GE Financial Network; www.gefn.com) website sales literature discloses paying life insurance premiums with an immediate annuity. However, it does not disclose or suggest several important features of the present invention, even after following the available URL links presented in the website. The GE system does not disclose financial growth being internal to a life insurance policy, using a partnership, sub-business, or other tax-advantaged entity for sheltering income from taxes, and is entirely silent on the issue of trusts. The GE system does not disclose or contemplate paying life insurance premiums with an immediate annuity in any implementation which would be advantageous for charities. Finally, it mentions neither trusts nor charities in any context.

The "Annuities Information", (S.W.I., Incorporated; www.lowcostlifeinsurance.com) sales literature states that annuities provide a convenient

way to pay insurance premiums with automatic withdrawals from annuity contracts. However, it does not disclose or suggest several important features of the present invention, even after following the available URL links presented in the website. The S.W.I. system does not disclose financial growth being internal to a life insurance policy, using a partnership, sub-business, or other tax-advantaged entity for sheltering income from taxes, and is entirely silent on the issue of trusts. The S.W.I. system does not disclose or contemplate paying life insurance premiums with an annuity contracts in any implementation which would be advantageous for charities. Finally, it mentions neither trusts nor charities in any context.

U.S. Patent No. 6,275,807 B1 to Schirripa ('807) discloses a computer system for control and distribution of annuity payments. The system also provides for allocation of interest, investment, and mortality risk between insurer and insured. The '807 disclosure refers to annuity holders as "insured", but other than that makes no reference to the annuity holder having a life insurance policy. The '807 reference is silent on taxes except to state that tax expenses will be incurred by the insurer (col. 3, lines 20-23).

The '807 patent does not disclose or suggest several important features of present invention. As with the other references, the '807 system does not suggest using borrowed money to purchase annuities and life insurance, nor paying the life insurance premiums using the income stream emanating from the annuity. Furthermore, the '807 system does not disclose using a partnership, sub-business, or other tax-advantaged entity for sheltering income from taxes. It also does not suggest an investment increasing value tax-free inside a life insurance policy, nor does it suggest any tax advantages of combining annuities and life insurance. Finally, it mentions neither trusts nor charities in any context.

U.S. Patent No. 6,064,969 to Haskins ('969) discloses a flexible annuity settlement proposal generating system. The annuities can include one of fixed period installments, life, joint and survivor, and "proceeds at interest" types. The "proceeds at interest" type may also be viewed as a flexible Certificate of Deposit (CD) investment proposal. The '969 reference refers to the seller of the annuity as an "insurer", but does

not otherwise appear to contemplate the use of life insurance separately from annuities. The '969 system provides for keeping money in reserve in order to pay anticipated taxes on the annuity payouts (col. 31, lines 51-55; col. 17, lines 22-24).

The '969 patent does not disclose or suggest several important features of the present invention. As with the other references, the '969 system does not suggest using borrowed money to purchase annuities and life insurance, nor paying the life insurance premiums using the income stream emanating from the annuity. Furthermore, the '969 system does not disclose using a partnership, sub-business, or other tax-advantaged entity for sheltering income from taxes. It also does not suggest an investment increasing value tax-free inside a life insurance policy. Although it mentions anticipated taxes on the annuity income stream, it does not suggest any tax advantages of combining annuities and life insurance. Finally, it mentions neither trusts nor charities in any context.

U.S. Patent No. 6,064,986 to Edelman ('986), like Edelman ('174), discloses a computer system for administering an investment and/or retirement program. The system combines annuities with trusts (col. 16, lines 22-25) to accumulate financial growth inside of a life-insurance contract (col. 16, lines 43-45). The system discloses using a computer system for helping to administrate the trust, annuity, and life insurance combination (col. 20, lines 2-6). One difference between the two Edelman references is that '986 discloses more detail about the exact nature of the trusts in appendices A-F, and includes Figs. 25-29 which disclose more detail about the types of computer systems through which the invention can be implemented.

Despite these differences between Edelman ('986) and Edelman ('174), the same comparison can be made to the present invention. Neither Edelman reference discloses using borrowed money to purchase the annuity. In fact, both Edelman systems specifically disclose that the user's own assets should be redirected from existing fixed-rate CDs ('174, col. 14, lines 47-65; '986, col. 17, lines 51-67) to purchase the annuity. Furthermore, the '174 system does not disclose using a partnership, sub-business, or other tax-advantaged entity for sheltering income from taxes, although it does state two tax

disadvantages commonly associated with annuities, which are 1) taxed at ordinary rates, and 2) no "stepped-up basis" at death ('174, col. 15, lines 48-57; '986, col. 18, lines 48-57). However, no further information is available as to how either Edelman system solves these problems. Finally, neither Edelman system discloses or contemplates any implementation which would be advantageous for charities.

U.S. Patent No. 6,235,176 B1 to Schoen et al. ('176) discloses a system for computerizing contributions for profit sharing pension and disability plans. The system is configurable to allow changes to contributions to pension and profit sharing plans to be more easily made. The '176 system discloses maintaining an annuity contract inside of a trust (col. 9, lines 24 and 56), and coordinates the respective timings of all benefit payments (col. 9, lines 16-17).

The '176 patent does not disclose or suggest several important features of the present invention. As with the other references, the '176 system does not suggest using borrowed money to purchase annuities and life insurance, nor paying the life insurance premiums using the income stream emanating from the annuity. The '176 reference repeatedly mentions annuities, but never in the context of using annuity income to pay for life insurance. The '176 reference also does not suggest any investment increasing in value tax-free while inside a life insurance policy or company. Furthermore, the '176 system does not disclose using a partnership, sub-business, or other tax-advantaged entity for sheltering income from taxes. The '176 reference mentions insurance, but these references appear only in connection with disability insurance. Thus, the '176 reference does not mention life insurance, and certainly does not suggest combining life insurance with annuities. The '176 reference also does not suggest tax advantages in any context. Finally, it mentions trusts only in connection with ERISA (employee pension and profit-sharing plans) or Voluntary Employees Beneficiary Association (VEBA), but never as a vehicle for sheltering an annuitant from tax liability.

U.S. Patent No. 5,631,828 to Hagan ('828) discloses a system for processing annuity and life insurance investments. One embodiment of the system coordinates CDs,

mutual funds, and other financial products through a life insurance company (Fig. 7A) or other banking institution (Fig. 7A). The '828 patent does not disclose or suggest several important features of the present invention. As with the other references, the '828 system does not suggest using borrowed money to purchase annuities and life insurance, nor paying the life insurance premiums using the income stream emanating from the annuity. The only place the '828 reference mentions annuities is as an alternative to insurance. Furthermore, the '828 system does not disclose using a partnership, sub-business, or other tax-advantaged entity for sheltering income from taxes. It also does not suggest an investment increasing value tax-free inside a life insurance policy. Although it mentions an annuity income stream, it does not suggest any advantages of using that annuity income stream to pay for life insurance, nor the tax consequences thereof. Finally, it only mentions trust in a peripheral context unrelated to the present invention, and does not mention charities in any context.

The book "Die Rich and Tax Free" (Forman Publishing, Inc., Santa Monica CA, ISBN 0-936614-15-3) by Barry Kay describes borrowing money to purchase annuities, the income stream of which is used to pay life insurance premiums.

The Barry Kay reference (Kay) does not disclose or suggest several important features of the present invention. The Kay reference do not account for all of the possible tax consequences of such an arrangement, and the target audience for his book is a narrow spectrum of very wealthy persons. Generally, when borrowed money is used to purchase insurance products, the loan interest is not tax deductible. Life insurance premiums are not tax deductible and the annuity income above basis is fully income taxable at ordinary rates. These disadvantages are not addressed by the Kay reference. Finally, the Kay reference does not address the situation where a charity, as a beneficiary of a life insurance policy, is subject to tax under the unrelated business income tax rules. These rules apply to charitable organization that engage in business activities that are not directly related to their charitable activities

U.S. Patent No. 5,673,402 to Ryan et al. ('402) discloses a system for producing an illustration of an investment repaying a mortgage. The system has a financial product using an investment other than a down payment (such as cash value life insurance) as collateral and a repayment means for a mortgage (col. 6, lines 35-38). The system can be owned and operated by a suitably licensed intermediary, who would work in conjunction with lenders, securities firms, life insurance companies, and mortgage brokers to design and distribute investment and mortgage products (col. 6, lines 54-60).

The '402 patent does not disclose or suggest several important features of the present invention. As with the other references, the '402 system does not suggest using borrowed money to purchase annuities and life insurance, nor paying the life insurance premiums using the income stream emanating from the annuity. Furthermore, the '402 system does not disclose using a partnership, sub-business, or other tax-advantaged entity for sheltering income from taxes. It also does not suggest an investment increasing in value tax-free while inside a life insurance policy. Although it mentions annuities, it mentions them only in connection with mortgages, and does not suggest any tax advantages of combining annuities and life insurance. Finally, it does not mention trusts or charities in any context.

U.S. Patent No. 6,049,772 to Payne et al. ('772) discloses a system for managing a plurality of life insurance policies and annuity contracts on behalf of an insurance carrier, producing an illustration of an investment repaying a mortgage. The value of the life insurance and annuities is determined as a percentage of a stock market index. The '772 reference discloses an owner 10, an insurance company 20, annuity payments 21, and premiums 31, 41 (Fig. 1).

The '772 patent does not disclose or suggest several important features of the present invention. As with the other references, the '772 system does not suggest using borrowed money to purchase annuities and life insurance, nor paying the life insurance premiums using the income stream emanating from the annuity. In fact, Fig. 1 explicitly shows the income stream 32 from the annuity flowing to the owner 10, and the life

insurance premiums 31, 41 flowing from the owner 10. The '772 reference also does not suggest an investment increasing in value tax-free while inside a life insurance policy. Furthermore, the '772 system does not disclose using a partnership, sub-business, or other tax-advantaged entity for sheltering income from taxes. Although it mentions life insurance and annuities, it does not combine them or suggest any tax advantages gained by combining them. Finally, it does not mention trusts or charities in any context.

U.S. Patent No. 5,911,135 to Atkins ('135) discloses a personal financial management program in an array of credit facilities within a client account. The '135 reference assumes that the client is a mortgage owner, and offers an alternative to conventional mortgage systems (col. 4, lines 26-29).

The '135 patent does not disclose or suggest several important features of the present invention. As with the other references, the '135 system does not suggest using borrowed money to purchase annuities and life insurance, nor paying the life insurance premiums using the income stream emanating from the annuity. In fact, the only place the '135 reference mentions annuities is as an alternative to insurance (col. 10, line 55). The '135 reference also does not suggest an investment increasing in value tax-free while inside a life insurance policy. Furthermore, the '135 system does not disclose using a partnership, sub-business, or other tax-advantaged entity for sheltering income from taxes. Although it mentions life insurance and annuities, it does not combine them or suggest any tax advantages gained by combining them but instead lists them as alternatives. Finally, it mentions trusts in a context unrelated to the present invention, and does not mention charities in any context.

U.S. Patent No. 5,864,685 to Hagan ('685) discloses an income trust computer transaction system. In the '685 reference, an account structure is made up of either life insurance or annuity contracts, or a combination of both. Annuity contracts can be structured in one or more irrevocable trusts. The '685 system manages a group of contract offers in coordination with a bidding means (col. 10, lines 15-19), and sorts those offers in

order of attractiveness. Where funds are available, the '685 system may purchase assorted of the offers.

The '685 patent does not disclose or suggest several important features of the present invention. As with the other references, the '685 system does not suggest using borrowed money to purchase annuities and life insurance, nor paying the life insurance premiums using the income stream emanating from the annuity. In fact, the only place the '685 reference mentions annuities is as an alternative to, or in combination with, insurance. The '685 reference also does not suggest an investment increasing in value tax-free while inside a life insurance policy. Furthermore, the '685 system does not disclose using a partnership, sub-business, or other tax-advantaged entity for sheltering income from taxes. Although it mentions life insurance and annuities, it does not combine them or suggest any tax advantages gained by combining them but instead lists them as alternatives. Finally, it does not mention charities in any context.

In light of the above, it is requested that Applicant's Petition for accelerated examination be granted.

Dated: January 14, 2002

Respectfully submitted,

By Chris Tanner

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U.S. Patent and Trademark Office; U.S. DEPARTMENT OF COMMERCE
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FEE TRANSMITTAL for FY 2001

Patent fees are subject to annual revision.

TOTAL AMOUNT OF PAYMENT ($) 130.00

Complete if Known	
Application Number	09/986,670
Filing Date	November 9, 2000
First Named Inventor	Bart Kavanaugh
Examiner Name	Not Yet Assigned
Group Art Unit	N/A
Attorney Docket No.	K2475.0001/P001

METHOD OF PAYMENT

1. [X] The Commissioner is hereby authorized to charge indicated fees and credit any overpayments to:

Deposit Account Number: 04-1073

Deposit Account Name: Dickstein Shapiro Morin & Oshinsky LLP

[X] Charge Any Additional Fee Required Under 37 CFR 1.16 and 1.17

[ ] Applicant claims small Entity status. See 37 CFR 1.27

2. [X] **Payment Enclosed**

[X] Check [ ] Credit Card [ ] Money Order [ ] Other

FEE CALCULATION

1. BASIC FILING FEE

Large Entity Fee Code	Large Entity Fee ($)	Small Entity Fee Code	Small Entity Fee ($)	Fee Description	Fee Paid
101	710	201	355	Utility filing fee	
106	320	206	160	Design filing fee	
107	490	207	245	Plant filing fee	
108	710	208	355	Reissue filing fee	
114	150	214	75	Provisional filing fee	

SUBTOTAL (1) ($) 0.00

2. EXTRA CLAIM FEES

			Extra Claims		Fee from below		Fee Paid
Total Claims		-** =		X		=	
Independent Claims		-** =		X		=	
Multiple Dependent						=	

Large Entity Fee Code	Large Entity Fee ($)	Small Entity Fee Code	Small Entity Fee ($)	Fee Description
103	18	203	9	Claims in excess of 20
102	80	202	40	Independent claims in excess of 3
104	270	204	135	Multiple dependent claim, if not paid
109	80	209	40	** Reissue independent claims over original patent
110	18	210	9	** Reissue claims in excess of 20 and over original patent

SUBTOTAL (2) ($) 0.00

***or number previously paid, if greater; For Reissues, see above*

FEE CALCULATION (continued)

3. ADDITIONAL FEES

Large Entity Fee Code	Large Entity Fee ($)	Small Entity Fee Code	Small Entity Fee ($)	Fee Description	Fee Paid
105	130	205	65	Surcharge – late filing fee or oath	
127	50	227	25	Surcharge – late provisional filing fee or cover sheet.	
139	130	139	130	Non-English specification	
147	2,520	147	2,520	For filing a request for *ex parte* reexamination	
112	920*	112	920*	Requesting publication of SIR prior to Examiner action	
113	1,840*	113	1,840*	Requesting publication of SIR after Examiner action	
115	110	215	55	Extension for reply within first month	
116	390	216	195	Extension for reply within second month	
117	890	217	445	Extension for reply within third month	
118	1,390	218	695	Extension for reply within fourth month	
128	1,890	228	945	Extension for reply within fifth month	
119	310	219	155	Notice of Appeal	
120	310	220	155	Filing a brief in support of an appeal	
121	270	221	135	Request for oral hearing	
138	1,510	138	1,510	Petition to institute a public use proceeding	
140	110	240	55	Petition to revive – unavoidable	
141	1,240	241	620	Petition to revive – unintentional	
142	1,240	242	620	Utility issue fee (or reissue)	
143	440	243	220	Design issue fee	
144	600	244	300	Plant issue fee	
122	130	122	130	Petitions to the Commissioner	130.00
123	50	123	50	Processing fee under 37 CFR 1.17(q)	
126	180	126	180	Submission of Information Disclosure Stmt	
581	40	581	40	Recording each patent assignment per property (times number of properties)	
146	710	246	355	Filing a submission after final rejection (37 CFR 1.129(a))	
149	710	249	355	For each additional invention to be examined (37CFR 1.129(b))	
179	710	279	355	Request for Continued Examination (RCE)	
169	900	169	900	Request for expedited examination of a design application	
Other fee (specify)					

*Reduced by Basic Filing Fee Paid

SUBTOTAL (3) ($) 130.00

SUBMITTED BY				Complete (*if applicable*)	
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Signature	Chris Tanner			*Date*	January 14, 2002

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